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for 3000 meeting

NSC BRIEFING

9 February 1954

THE SHIFTING PATTERN OF SOVIET TRADE WITH NON-ORBIT COUNTRIES

I. Recent developments in Soviet trade with the West.

A. Since the death of Stalin, the commodity pattern of Soviet trade has been shifted, with the USSR importing a greater volume of consumer goods and exporting precious metals and strategic minerals in quantity.

B. The USSR increased imports of consumer goods from the West, but fell far short of its goal of \$300,000,000 worth in 1953. However, Soviet imports of consumer goods in 1953 represented 40 to 50 percent of total imports from the West compared to 25% in 1952. Trade agreements call for further expansion of such imports in 1954.

C. The USSR has given renewed attention to concluding formal trade agreements with non-Communist governments.

II. Shifts in the commodity pattern of Soviet trade since the death of Stalin.

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- A. Consistent with internal commitments to improve living standards, the new Soviet leaders have stepped up sharply the import of consumer goods.
1. New trade agreements have included a higher proportion of consumer goods on the Soviet import lists as compared with the predominant demand for strategic goods in former years. For example the 1953 agreements with France and Italy include unprecedented quantities of textiles.
 2. Spot purchases of butter have been made from countries of Western Europe, meat from Latin America, and meat and wool from Australia and New Zealand.
 3. Attempts have been made to procure 40,000 tons of butter and 200,000 tons of cotton seed oil from the United States.
 4. Nevertheless the USSR has continued clandestine procurement of strategic goods through Western free ports and has been negotiating for the purchase of Western built refrigerator ships, ice-breakers and dry cargo

B. With the USSR's traditional foreign exchange earners in greater demand at home, the sharp decrease in export of grains and timber is now being replaced by increased shipments of petroleum products, precious metals, and mineral ores and products.

1. Unusually large sales of Soviet gold amounting to some \$115,000,000 were made in Western Europe in the last three months of 1953.
2. For the first time since World War II, the USSR is prepared to sell in quantity such commodities as manganese, chrome, 100,000 tons of pig iron to Great Britain and 10,000 tons of cast iron to Argentina.
3. The USSR has contracted to export to the West over 3,000,000 tons of petroleum products and to send large quantities of petroleum equipment to Argentina.
4. Soviet exports are small relative to total world trade in each of these commodities.

C. In the first half of 1953, during a period of economic

readjustment, following Stalin's death, the total volume of Soviet exchanges with the West fell below the level for the same period in 1952.

D. Trade with the West increased steadily during the last half of 1953 and is scheduled to rise further in 1954.

III. Soviet emphasis on expanding formal trading arrangements with Western governments.

A. In 1953, the USSR negotiated formal trade agreements with 14 Western countries (see attached list), most of which call for an increased volume of exchange in 1954.

1. Seven of the new agreements are with countries with which the USSR had no formal trade agreement in 1952.

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2. during negotiations, the Soviet approach has been uncharacteristically businesslike. The USSR has largely foregone the use of the discussion sessions themselves as propaganda forums.

3. In addition to the agreements originally concluded,

creases in trade have been signed with Iran and Norway and a similar arrangement is now being negotiated with France.

4. The Soviet Union has offered to place orders with British business firms totaling to \$1,120,000,000 over the three year period 1955-1957.

5. French, Argentine and Egyptian commercial delegations are currently in Moscow.

6. The USSR has granted a \$10,000,000 gold loan to Finland.

B. The USSR is now bidding for closer ties with raw material producing countries by offering credits and technical assistance.

1. Soviet credits of \$30,000,000 have been given to Argentina and \$3,500,000 to Afghanistan under the current agreements.

2. Agreements have been concluded with India and Afghanistan which make Soviet industrial technicians available to these countries.

technicians for hydroelectric development in any Asian country.

IV. Implications of the new Soviet approach to trade.

- A. The USSR aims to increase the availability of consumer goods as an incentive for greater labor productivity.

While the volume of consumer goods imports will furnish only a small part of the increases called for in the Soviet program, they will be of greater importance in helping to bridge the gaps until domestic production is raised.

- B. As a by-product of its new approach in Western Europe, the USSR stands to gain a political advantage by reducing support for COCOM and exploiting differences in attitude between the US and Western European governments.

1. Already the UK has officially called for a sweeping reduction in the number of strategic items subject to control, with the exception of military-end items.

2. France, Belgium, and Italy have demonstrated their

reluctance to be bound by existing controls.

C. By expanding commercial ties with the underdeveloped countries, the USSR is in a position to improve its political relations with these states.

1. The agreements with Argentina, Iran, and India have stimulated the interest of other Latin American, Middle Eastern, and Asian countries in exploring the possibilities of trade with the USSR.

V. Soviet propaganda treatment of East-West trade

A. Trade with the West is currently receiving extensive Soviet propaganda treatment.

1. More than 58 commentaries per week are now devoted to the subject, in comparison with an average of three per week in the first half of 1953.
2. The bulk of the material which is designed for West European consumption, stressed the normalization of trade as a means of easing international tension and states that economic realities are breaking down ar-

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3. Trade expansion as a buffer to an impending Western economic crisis is a recurrent propaganda theme, but suggestions that the Soviet bloc needs this trade are avoided.

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Countries with which the
USSR had formal trade agreements
in 1952.

Afghanistan

Belgium

Finland

Italy

Iran

Norway

Sweden

Countries with which the
USSR has negotiated formal
trade agreements in the
past twelve months*

Afghanistan

Argentina

Belgium

Denmark

Egypt

France

Finland

Greece

Iceland

India

Italy

Iran

Norway

Sweden

Pattern in known Soviet gold sales
in the West

1952	\$85,000,000
1953 (first nine mos)	32,500,000
1953 (last three mos)	115,000,000

* The USSR has no formal trade agreement with the United Kingdom, its largest single trading partner, which has accounted for more than one-third of its trade with the West in past years.

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(Add to: THE SHIFTING PATTERN OF SOVIET TRADE WITH NON-ORBIT COUNTRIES)

VI. Implications of the Soviet trade offensive for Western Europe

A. These developments probably have greatest immediate importance as regards Western Europe.

1. Western Europe normally accounts for approximately 70 percent of total Soviet foreign trade outside Orbit
2. Although for Western European countries, Soviet trade normally represents less than 5 percent of their foreign trade, several factors now give it special importance:
 - (a) The return of a buyers' market in various fields from textiles to shipbuilding.
 - (b) For certain countries like Britain, the re-turning competition of West Germany and Japan in overseas markets.
 - (c) The tapering off of direct American assistance as a source of dollars with which to procure materials and equipment for their defense-expanded economies -- with the attendant decline in US political leverage.
 - (d) Fear that a depression in the US may force a decline in American purchases from Western Europe with resultant devastating impact on their economies and on their ability to procure ⁱⁿ the dollar area.

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(e) The fallacious popular belief that there is a great potential for expansion of trade with the USSR.

3. Psychologically, there is a widespread hope that the new Soviet global strategy calls for indefinite postponement of a shooting war.

(a) The inference drawn for the West is that ordinary trading considerations should now take priority over economic warfare.

(b) This inference by the European countries is borne out by their attitudes over the past six months toward the COCOM trade control program:

(1) Certain countries like Italy, France and Belgium have been more persistent than previously in seeking exceptions to COCOM embargoes.

(2) Britain has since last fall been seeking a drastic revision of COCOM rules/^{so}as to

(a) Narrow greatly the number of items subject to COCOM controls

(b) Increase the quantities of permissible exports in each category

(1) e.g. in merchant ship construction the US has reluctantly conceded annual COCOM country export commitments to the Orbit

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up to a "replacement figure" of
68,000 tons, while Britain still
insists on a figure 150,000 tons.

(3) Other COCOM countries have by their actions
and official statements implied that they
will support the British demand for re-
laxed export controls.

(a) Ex-Prime Minister Pella of Italy stated
in Parliament ~~last~~ fall that Italy has
"no ^{ap}priori prejudices toward East ~~an~~
West, either economic or political"

(b) In France, Vice-premier Reynaud stated
~~last~~ fall that the entire system of
controlling trade shipments to the
Orbit should be abandoned.

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(4) Meanwhile, the ~~Anglo-Soviet trade deal,~~
announced on 4 February and amounting to over
a billion dollars, would, if implemented in
its present form, wreck the whole existing
COCOM Program.

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4. In addition to the belief that the relaxation of political tensions is a reason for increasing East-West trade, there is also a growing conviction in Western Europe that increased trade with the USSR is ~~the~~ in itself a means of further reducing those tensions, e.g.

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(a)



- (b) A Socialist deputy in the French National Assembly stated last summer that "East-West trade is increasingly important in lessening the tension between the two blocs, a stepping stone to co-existence."

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